

BUCKS COUNTY INTERMEDIATE UNIT #22

BUCKS COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

DECEMBER 2010

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mrs. Patricia Sexton, Board President
Bucks County Intermediate Unit #22
705 North Shady Retreat Road
Doylestown, Pennsylvania 18901

Dear Governor Rendell and Mrs. Sexton:

We conducted a performance audit of the Bucks County Intermediate Unit #22 (BCIU) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period December 3, 2008 through February 2, 2010, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the BCIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

We appreciate the BCIU's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

December 29, 2010

cc: **BUCKS COUNTY INTERMEDIATE UNIT #22** Board Members

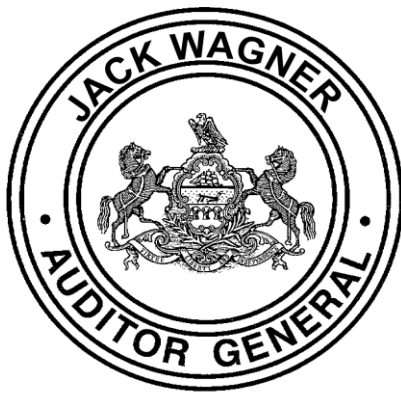


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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Bucks County Intermediate Unit #22 (BCIU). Our audit sought to answer certain questions regarding the BCIU's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the BCIU in response to our prior audit recommendations.

Our audit scope covered the period December 3, 2008 through February 2, 2010, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2007-08 and 2006-07.

Intermediate Unit Background

The intermediate unit (IU) is a legal entity established under the terms of Pennsylvania Law (Act 102, May 4, 1970) to function as a service agency for the 13 participating school districts, nonpublic schools, and institutions in Bucks County. The IU is governed by a 13 member board appointed by the participating school districts on a rotating basis. The administrative office is located at 705 North Shady Retreat Road, Doylestown, Pennsylvania.

The programs offered by the IU served 92,091 students in public schools and 15,487 students in nonpublic schools. The staff consisted of 29 administrators,

488 teachers, and 876 full-time and part-time support personnel.

The accounts of the IU are organized on the basis of programs and account groups, each of which are considered a separate accounting entity. IU resources are allocated to, and accounted for, in individual programs based on purposes for which the funds are to be spent and the means by which spending activities are controlled.

The various programs which receive Commonwealth funds are accounted for in the following:

General Fund

The general fund is the primary operating fund of the IU. It is used to account for all financial resources and accounts for the general governmental activities of the IU.

Services provided to participating school districts through the general fund included:

- administration;
- curriculum development and instructional improvement;
- educational planning;
- instructional materials;
- management services;
- continuing professional education;
- pupil personnel;

- state and federal liaison; and
- nonpublic program subsidy - Act 89.

Lastly, the BCIU received more than \$7.1 million from the Commonwealth in general operating funds in school year 2007-08.

Special Revenue Fund

The special revenue fund accounts for the financial resources received to provide, maintain, administer, supervise and operate schools, classes, service programs, and transportation for exceptional children in accordance with the school laws of Pennsylvania and the approved IU plan for special education. The special revenue fund accounts for financial resources available for programs and services for exceptional children in state centers, state hospitals, private licensed facilities, and other child care institutions.

The special education program offered services at all grade levels for pupils whose physical, mental, or emotional needs required such services. If appropriate facilities were not available in a neighborhood school, the IU provided the necessary transportation.

Special education programs included:

- gifted support;
- learning support;
- life skilled support;
- emotional support;
- deaf or hearing impaired support;
- blind or visually impaired support;

- speech and language support;
- physical support;
- autistic support; and
- multi-handicapped support.

Act 25 of 1991 amended the Public School Code regarding the funding of special education services. IUs received direct funding for certain institutionalized children programs, CORE services, special payments to certain IUs, and a contingency fund.

Lastly, the BCIU received more than \$31.2 million from the Commonwealth in special revenue funds in school year 2007-08.

Audit Conclusion and Results

Our audit found that the BCIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the BCIU from an audit we conducted of the 2007-08 and 2006-07 school years, we found the BCIU had taken appropriate corrective action pertaining to certification deficiencies (see page 7) and began to implement our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 8).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each Local Education Agency (LEA). The results of these audits are shared with LEA management, the Governor, the PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period December 3, 2008 through February 2, 2010, except for the verification of professional employee certification which was performed for the period August 27, 2008 through January 14, 2010.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

While all LEAs have the same school years, some LEAs have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Department of Education (DE) reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a law, regulation, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as, laws, regulations, and defined business practices. Our audit focused on assessing the BCIU's compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ Is the IU's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the IU?

- ✓ Did the IU pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the IU taking appropriate steps to ensure school safety?
- ✓ Did the IU use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the IU take appropriate corrective action to address recommendations made in our prior audits?

Methodology

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with applicable laws, regulations, contracts, grant requirements and administrative procedures.

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

BCIU management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the IU is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the area of pupil transportation.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, and financial stability.
- Items such as meeting minutes.
- Deposited state funds.

Additionally, we interviewed selected administrators and support personnel associated with BCIU operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on October 8, 2009, we reviewed the BCIU's response to DE dated January 19, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of Bucks County Intermediate Unit #22 resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Bucks County Intermediate Unit #22 (BCIU) for the school years 2005-06 and 2004-05 resulted in one reported finding and one observation. The finding pertained to certification deficiencies and the observation pertained to unmonitored vendor system access and logical access control weaknesses. As part of our current audit, we determined the status of corrective action taken by the BCIU to implement our prior recommendations. We analyzed the BCIU Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned BCIU personnel regarding the prior finding and observation. As shown below, we found that the BCIU did implement recommendations related to certification deficiencies and began to implement our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding: Certification Deficiencies</i></u></p> <ol style="list-style-type: none"> 1. Ensure that all professional employees have current valid certificates prior to assignment. 2. DE should adjust the BCIU's allocations to recover the subsidy forfeitures of \$8,871. 	<p>Background:</p> <p>Our prior audit found that one individual was teaching on an expired certificate during the 2007-08 and 2006-07 school years.</p>	<p>Current Status:</p> <p>Our current audit found that the individual in question obtained proper permanent certification.</p> <p>Our audit also determined that BCIU has procedures in place to ensure that all professional employees have current valid certification.</p> <p>Per correspondence dated May 13, 2010, DE was to withhold the \$8,871 subsidy forfeiture from the BCIU's June 2010 special education funding payment.</p>

<p><u>II. Observation:</u> <u>Unmonitored Vendor</u> <u>System Access and Logical</u> <u>Access Control Weaknesses</u></p> <ol style="list-style-type: none"> 1. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on their system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). BCIU should review these reports to determine that the access was appropriate and that data was not improperly altered. BCIU should also ensure it is maintaining evidence to support this monitoring and review. 2. Allow access to the system only when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes. 3. The upgrades/updates to BCIU's system should be made only after receipt of written authorization from appropriate BCIU officials. 4. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical 	<p>Background:</p> <p>Our prior audit of BCIU records found that a risk existed that unauthorized changes to BCIU's data could occur and not be detected because the BCIU was not able to provide supporting evidence that it is adequately monitoring vendor activity in its system.</p>	<p>Current Status:</p> <p>Our prior audit was released on October 8, 2009. As of our current audit's fieldwork completion date of February 2, 2010, we found that BCIU contacted its software vendor with the intention of implementing our recommendations. We will verify compliance with our recommendations during our next audit.</p> <p>The BCIU board, in their response to DE, stated:</p> <p>As a result of the Auditor General's recommendation, the intermediate unit has contacted [the vendor] to discuss the possibility of making the following changes:</p> <ul style="list-style-type: none"> • The ability to generate monitoring reports (including firewall logs) of vendor and employee access and activity. • Request that [the vendor] include written authorization from all their LEAs [Local Education Agencies] prior to upgrading their software. • Request the [vendor] include security features and system parameters that meet the State's standards. <p>We understand from [the vendor] that they monitor their own firewall logs and they will have additional reporting ability in January 2010. In addition, they have a software rewrite that is scheduled for the year 2011, which should address</p>
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<p>functions.</p> <p>5. Include in its Acceptable Use Policy (AUP) provisions for authentication (password security and syntax requirements).</p> <p>6. Implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis (i.e., every 30 days). Passwords should be a minimum length of eight characters. Also, BCIU should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords) and lock out users after three unsuccessful attempts.</p>		<p>many of the recommended changes. Any changes to [vendor] software are communicated to each LEA before implementation; however, they do not require our authorization before implementation.</p> <p>In regards to the following weaknesses that were mentioned in the observation:</p> <ul style="list-style-type: none"> • BCIU does not have current policies or procedures in place to analyze the impact of proposed program changes in relation to other business-critical functions. • BCIU’s AUP does not include provisions for authentication (password security and syntax requirements). • Weaknesses in logical access controls. BCIU’s system parameter settings do not require all users, including the vendor, to change their passwords every 30 days; to use passwords that are minimum length of eight characters, to maintain a password history and to lock out users after three unsuccessful attempts. <p>The intermediate unit has a team of administrators called a Cross Divisional Technology Team that meets monthly. We have requested that the team make it a priority to review our technology policies and procedures recommending revisions to our board of directors for approval by the end of the calendar year. In addition, we have requested our technology department to</p>
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		<p>work on the access controls for individual BCIU computers.</p> <p>Many of the Auditor General's recommendations are beyond our control; however, we will do everything we can to make sure that we comply with their requests.</p>
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Distribution List

This report was initially distributed to the executive director of the intermediate unit, the board members, our website address at www.auditorgen.state.pa.us, and the following:

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